



21 February 2012

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South, NSW 1235

Project number: EMO0022

Dear Mr Pierce,

RE: ENERGY MARKET ARRANGEMENTS FOR ELECTRIC AND NATURAL GAS VEHICLES

CitiPower and Powercor Australia (**the Businesses**) refer to the Australian Energy Market Commission's (**Commission**) Issues Paper entitled 'Energy Market Arrangements for Electric and Natural Gas Vehicles' (**Issues Paper**) dated 18 January 2012. The Businesses appreciate the opportunity to comment on the Issues Paper and are supportive of AEMC's initiatives in reviewing energy market arrangements to ensure the market is able to facilitate the efficient uptake of Electric Vehicles (**EVs**).

The Businesses agree that technological advancements and price increases in conventional fuel substitutes have improved the economic viability of EVs. The Businesses acknowledge that EVs and NGVs will play a more prominent role in Australia's transport mix, particularly in response to climate change pressures. However, the Businesses raise two areas of concern for the Commission's consideration in developing its policy positions on the impact of EVs on the distribution networks and their customers.

1. Predicting private sector technological change

The Businesses note the Commission's efforts in undertaking a study to estimate the adoption rates of EVs over the next 20 years. The Commission estimates that by 2020 EV adoption could amount to 20 per cent of new car sales. The Commission further predicts that this figure could rise to 45 per cent of new car sales by 2030.

The Businesses highlight that modelling the extent of adoption of new products in an industry subject to rapid technological advancements is inherently difficult. This is particularly the case given that the EV market is in its infancy, with trials having only

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just begun. Predicting that such technologies would reach critical mass on the basis of a government funded study underestimates the ability of the market to identify and accommodate technological change. The Commission's study effectively seeks to second-guess the market. This is a particularly dangerous exercise in a sector characterised by short product life cycles and high exit rates. There remains a distinct possibility that such technologies will not reach critical mass at all.

The Businesses preliminary views of the EV market are that the technology, while advanced in progress, remains far from reaching the adoption rates predicted for 2020 by the Commission. While the Businesses recognise the cost impact of wide scale EV adoption on the network, the Businesses submit that the progressive nature of EV uptake can be adequately accommodated under the current market rules.

2. Preferential treatment of specific businesses

The Businesses note that even on the Commission's most favourable assessment, there will remain a significant number of customers who will not own an EV in the foreseeable future. Proposals that seek to recover the costs of EV impact on the network from all customers are not efficient or fair. The Commission correctly highlights the importance of the causer-pays principle to ensure that inefficient cross-subsidies are minimised.

While the Businesses are supportive of the EV industry, accommodating connection requests and additional load can be conducted under the current market rules and regulations. The Businesses do not support proposals to allow specific sectors or businesses to recover the costs of EV connections from the general customer base. The preferential treatment of EV businesses over other loads, appliances or technologies is not fair and serves only to add distortions to a dynamic market. Such distortions may inadvertently create inefficiencies elsewhere by providing artificial support for technologies favoured by the Commission and not by the market.

If you have any questions, please contact Vivienne Pham on (03) 9683 2023 or by email at vpham@powercor.com.au.

Yours sincerely,



Brent Cleve
MANAGER REGULATION